

Report of the auditor-general to the Northern Cape provincial legislature and the council on John Taolo Gaetsewe District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the John Taolo Gaetsewe District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and appropriation statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the John Taolo Gaetsewe District Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA, and DoRA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

8. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2014 in the financial statements of the John Taolo Gaetsewe District Municipality at, and for the year ended, 30 June 2015

Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

10. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

11. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Key Performance Area 1: Basic Service and Infrastructure on pages x to x
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected development priority are as follows:

Basic Service and Infrastructure

Usefulness of reported performance information

Measurability of indicators

18. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 100% of the indicators were not well defined.

Reliability of reported performance information

19. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of technical indicator descriptions for the accurate measurement, recording and monitoring of performance of source documentation in support of actual achievements.

Additional matters

20. I draw attention to the following matters

Achievement of planned targets

21. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported

performance information for the selected development priorities reported in paragraphs x to x of this report.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of Key Performance Area 1– Basic Services and Infrastructure. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness of the reported performance information.

Unaudited supplementary schedules

23. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Unaudited disclosure notes

24. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

26. The municipality did not give effect to its integrated development plan as required by section 21(2) (a) of the MFMA and Municipal planning and performance management regulation 6.

Financial statements, performance and annual reports

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
28. The oversight report, containing comments on the annual report, was not adopted by the council within two months from the date on which the 2013/14 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.

Procurement and contract management

29. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
30. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
31. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1) (f) of Preferential Procurement Policy Framework Act.
32. Quotations were awarded to bidders who had not submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
33. Quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
34. Contract was extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.

Expenditure management

35. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1) (d) of the Municipal Finance Management Act.

Conditional grants received

36. The municipality did not evaluate its performance in respect of programmes or functions funded by the Local Government Financial Management Grant and the Municipal Systems Improvement Grant, as required by section 12(5) of the Division of Revenue Act

Internal control

37. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

38. The leadership did not monitor the existing action plan adequately to ensure that corrective actions were taken when required and within the required time frames. This resulted in similar previous financial year material findings re-occurring in the current financial year relating to non-compliance and the reported performance information.
39. The leadership did not ensure that there were processes in place to ensure that reviews were implemented before submission of information as material errors were detected in the financial statements that were subsequently adjusted.

40. The municipality's internal processes and systems did not prevent material non-compliances, irregular, unauthorised as well as fruitless and wasteful expenditure.
41. Leadership did not ensure that the IT department have adequate skills that were required to develop an IT Governance Framework and IT Strategy. Training was not provided to equip the IT personnel with the IT skills required to develop and implement an IT governance framework.

Financial and performance management

42. Finance staff members did not have knowledge of GRAP and, as a result, the municipality chose to use consultants to prepare the annual financial statements. Finance staff members did not take initiative by using the GRAP checklist provided by the National Treasury to ensure that the financial statements prepared are free from errors. This resulted in material amendments to the financial statements.
43. The collation of different information from various units for incorporation into the annual performance report was not done timeously to allow for sufficient and adequate reviews. This resulted in the material amendments and the inability to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
44. The action plan to address previous year's audit findings was implemented towards the end of the financial year, resulting in the municipality not fully addressing the previous year's audit findings relating to compliance.

Governance

45. Continuous monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting regarding IT controls.

*Auditor-General
Kimberley*

30 November 2015



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